November 24, 2014

Mr. William Huston
President
St. Catharine College
2735 Bardstown Road
St. Catharine, KY 40061-9499

*UPS Tracking # **1Z A87 964 01 9521 7038***

RE: **Final Program Review Determination**
OPE ID: 00198300
PRCN: 201430728615

Dear President Huston:

The U.S. Department of Education's (Department's) School Participation Division—Kansas City issued a program review report on July 9, 2014, covering St. Catharine College's (SCC) administration of the Federal Perkins Loan program authorized by Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs). SCC's final response was received on October 3, 2014. A copy of the program review report (and related attachments) and SCC's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by SCC upon request. Additionally, this Final Program Review Determination (FPRD), related attachments, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after this FPRD is issued.

Purpose:

Final determinations have been made concerning all of the outstanding findings of the program review report. The purpose of this letter is to: (1) identify liabilities resulting from the findings of this program review report, (2) provide instructions for payment of liabilities to the Department, (3) notify the institution of its right to appeal and (4) close the review.

The total liabilities due from the institution from this program review are **$97,470.11**.

This final program review determination contains detailed information about the liability determination for all findings.

Protection of Personally Identifiable Information (PII):

PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth).

The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information. To protect PII, the findings in the attached report do not contain any student PII. Instead, each finding references students only by a student number created by Federal Student Aid. The student numbers were assigned in Appendix A, Student Sample. In addition, Appendices B (Student Level Liabilities Identified from File Review) and E (Cost of Funds) also contain PII.

Appeal Procedures:

This constitutes the Department's FPRD with respect to the liabilities identified from the July 9, 2014, program review report. If SCC wishes to appeal to the Secretary for a review of financial liabilities established by the FPRD, the institution must file a written request for an administrative hearing. Please note that institutions may appeal financial liabilities only. The Department must receive the request no later than 45 days from the date SCC receives this FPRD. An original and four copies of the information SCC submits must be attached to the request. The request for an appeal must be sent to:

Ms. Mary E. Gust, Director
Administrative Actions and Appeals Service Group
U.S. Department of Education
Federal Student Aid/PC
830 First Street, NE - UCP3, Room 84F2
Washington, DC 20002-8019

SCC's appeal request must:

(1) indicate the findings, issues and facts being disputed;
(2) state the institution's position, together with pertinent facts and reasons supporting its position;
(3) include all documentation it believes the Department should consider in support of the appeal. An institution may provide detailed liability information from a complete file review to appeal a projected liability amount. Any documents relative to the appeal that include PII data must be redacted except the student's name and last four digits of his / her social security number (please see the attached document, "Protection of Personally Identifiable Information," for instructions on how to mail "hard copy" records containing PII); and
(4) include a copy of the FPRD. The program review control number (PRCN) must also accompany the request for review.

If the appeal request is complete and timely, the Department will schedule an administrative hearing in accordance with § 487(b)(2) of the HEA, 20 U.S.C. § 1094(b)(2). The procedures followed with respect to SCC's appeal will be those provided in 34 C.F.R. Part 668, Subpart H. **Interest on the appealed liabilities shall continue to accrue at the applicable value of funds rate, as established by the United States Department of Treasury, or if the liabilities are for refunds, at the interest rate set forth in the loan promissory note(s).**

Record Retention:
Program records relating to the period covered by the program review must be retained until the later of: resolution of the loans, claims or expenditures questioned in the program review; or the end of the retention period otherwise applicable to the record under 34 C.F.R. §§ 668.24(e)(1), (e)(2), and (e)(3).

The Department expresses its appreciation for the courtesy and cooperation extended during the review. If the institution has any questions regarding this letter, please contact Ms. Kathy Feith at (816) 268-0406. Questions relating to any appeal of the FPRD should be directed to the address noted in the Appeal Procedures section of this letter.

Sincerely,

(b)(6) [redacted]

Ralph A. LoBosco
Division Director

Enclosure:
Protection of Personally Identifiable Information
Program Review Report (and appendices)
Final Program Review Determination Report (and appendices)

cc: Mr. Greg Lauersdorf, Interim Director of Financial Aid
Kentucky Council on Postsecondary Education
Southern Association of Colleges and Schools Commission on Colleges (SACS)
Ms. Dawn Bilodeau, Department of Defense
Mr. Bill Spruce,Department of Veterans Affairs
Consumer Financial Protection Bureau

PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

Personally Identifiable Information (PII) being submitted to the Department must be protected. PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth).

PII being submitted electronically or on media (e.g., CD-ROM, floppy disk, DVD) must be encrypted. The data must be submitted in a .zip file encrypted with Advanced Encryption Standard (AES) encryption (256-bit is preferred). The Department uses WinZip. However, files created with other encryption software are also acceptable, provided that they are compatible with WinZip (Version 9.0) and are encrypted with AES encryption. Zipped files using WinZip must be saved as Legacy compression (Zip 2.0 compatible).

The Department must receive an access password to view the encrypted information. The password must be e-mailed separately from the encrypted data. The password must be 12 characters in length and use three of the following: upper case letter, lower case letter, number, special character. A manifest must be included with the e-mail that lists the types of files being sent (a copy of the manifest must be retained by the sender).

Hard copy files and media containing PII must be:

- sent via a shipping method that can be tracked with signature required upon delivery
- double packaged in packaging that is approved by the shipping agent (FedEx, DHL, UPS, USPS)
- labeled with both the "To" and "From" addresses on both the inner and outer packages
- identified by a manifest included in the inner package that lists the types of files in the shipment (a copy of the manifest must be retained by the sender).

PII data cannot be sent via fax.

Prepared for

St. Catharine College

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

PROUD SPONSOR of the AMERICAN MIND™

OPE ID: 00198300
PRCN: 201430728615

Prepared by
U.S. Department of Education
Federal Student Aid
School Participation Division—Kansas City

Final Program Review Determination
November 24, 2014

1010 Walnut Street, Suite 336, Kansas City, MO 64106-2147
StudentAid.gov.

Table of Contents

A. Institutional Information

St. Catharine College
2735 Bardstown Road
St. Catharine, KY 40061-9499

Type: Private, Non-profit

Highest Level of Offering: Master's Degree

Accrediting Agency: Southern Association of Colleges and Schools Commission on Colleges (SACS)

Current Student Enrollment: 759 (2012-2013 award year)

% of Students Receiving Title IV: 57% (2012-2013)

Title IV Participation G5:

	2012-2013
Federal Pell Grant	$ 1,562,857.00
Federal Supplemental Educational Opportunity Grant (FSEOG)	$36,950.00
Federal Work Study Program (FWS)	$44,760.00
William D. Ford Federal Direct Loan Program	$ 4,621,734.00
Federal Perkins Loan Program	$1,000.00
Total	**$ 6,267,301.00**

Default Rate FFEL/DL:	2011	12.7%
	2010	13.0%
	2009	7.8%

Default Rate Perkins:	June 2013	65.0%
	June 2012	50.0%
	June 2011	52.6%

B. Scope of Review

The U.S. Department of Education (the Department) conducted an off-site program review at St. Catharine College (SCC) from May 27, 2014 to June 6, 2014. The review was conducted by Ms. Kathy Feith.

The focus of the review was SCC's Federal Perkins Loan program compliance as well as its Federal Perkins Loan default rate. The review consisted of an examination of SCC's Federal Perkins Loan promissory notes as well as its due diligence procedures and its Federal Perkins bank account.

75 Federal Perkins Loan fund recipients were identified for review from the all award years in which SCC has participated in the Federal Perkins Loan program. The files were selected randomly from a statistical sample of the total population receiving Federal Perkins Loan program funds. Appendix A lists the names and partial social security numbers of the students whose Perkins Loan files were examined during the program review. A program review report was issued on July 9, 2014.

Disclaimer:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning SCC's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, it does not relieve SCC of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

C. Findings and Final Determinations

Resolved Findings

Finding 2

SCC has taken the corrective actions necessary to resolve Finding 2 of the program review report. Therefore, this finding may be considered closed. SCC's response related to this finding is included as part of Appendix D. Findings requiring further action by SCC are discussed below.

Resolved Finding with Comments

The following program review finding has been resolved by the institution, and may be considered closed. This finding is included solely for the purpose of discussing resolution of the finding.

Finding 1. Failure to Maintain Eligibility to Participate in the Federal Perkins Loan Program

***Citation Summary**: If an institution's cohort default rate meets the following levels, a default penalty is imposed on the institution as follows:*

- *For award year 2000-2001 and succeeding award years, an institution with a cohort default rate that equals or exceeds 50 percent for each of the three most recent years for which cohort default rate data are available is ineligible to participate in the Federal Perkins Loan Program. Following a review of that data and upon notification by the Secretary, an institution is ineligible to participate for the award year, or the remainder of the award year, in which the determination is made and the two succeeding award years. An institution may appeal a notification of ineligibility from the Secretary within 30 days of its receipt. If the institution appeals, the Secretary issues a decision on an appeal within 45 days of the institution's submission of a complete, accurate, and timely appeal. An institution may continue to participate in the program until the Secretary issues a decision on the institution's appeal.*

Within 90 days of receiving a notification of ineligibility or, if the institution appeals, within 90 days of the Secretary's decision to deny the appeal, the institution must liquidate its revolving student loan fund by making a capital distribution of the liquid assets of the Fund according to section 466(c) of the HEA; and assign any outstanding loans in the institution's portfolio to the Secretary in accordance with §674.50. 34 C.F.R. 674.5 (a)(2)(C)(ii)(A) and (B)

Noncompliance Summary: *SCC's Federal Perkins Loan program default rate has exceeded the allowed threshold for continued participation during the three most recent cohort default rate years. For the three most recent reporting years the default rates are as follows:*

As of June 30, 2013 (2012-2013 Award Year)	***65.0%***
As of June 30, 2012 (2011-2012 Award Year)	***50.0%***
As of June 30, 2011 (2010-2011 Award Year)	***52.6%***

SCC was notified October 23, 2013 it was no longer eligible to participate in the Federal Perkins Loan program and provided information regarding how to appeal the default rate if the institution decided to try to remain as a participant in the program. On December 20, 2013, correspondence from the Campus Based Operations Division was sent to SCC to indicate that since the institution did not appeal the rates released in October, the institution was required to begin the liquidation process as SCC is no longer eligible to participate in the Federal Perkins Loan program.

Required Action Summary: *SCC was notified in December 2013 to liquidate its Federal Perkins loan portfolio and assign all loans to the Department within 90 days of notification the institution was no longer eligible to participate in the Federal Perkins loan program. At the time the off-site review began, SCC indicated they had not begun the liquidation process. During the exit conference, SCC staff indicated they had begun to compile the student lists for assignment although the assignment process had not commenced. As part of the requirements for this finding, SCC must provide documentation to program reviewers which indicate compliance with this mandate. Specifically, SCC should review Electronic Announcement 2013-4-19 to determine the process for liquidation and the appropriate steps and timeframe to ensure compliance with the requirements of the program review report as well as the mandates from the Campus Based Division. SCC must review the contents of the communications sent by Campus Based operations to ensure they are aware of all steps of the liquidation and are prepared to complete as required and provide proof of compliance to reviewers. If SCC requires assistance with this process, please contact the Campus Based Division at 877-801-7168. If SCC has not begun to comply with this directive at the time of this report, the institution must contact Campus Based to explain the delays and provide assurances to the reviewers as well as Campus Based staff the institution intends to comply with the required liquidation and provide the timeframe the requirements will be met. As discussed in Finding 3, SCC appears to have failed to maintain enforceable promissory notes in many instances. As the institution cannot fully begin the liquidation process prior to ascertaining the number of promissory notes which must be purchased by the institution, SCC must complete the requirements for Finding 3 prior to the liquidation process. Once SCC is able to fully establish the loans which are eligible to be assigned based on the results of Finding 3 and the number of loans which are required to be purchased by the institution (and thus ineligible for assignment), SCC will be responsible for beginning the liquidation process. SCC should review the requirements for* *liquidation as outlined in Electronic Announcement 2013-4-19 as well as in the FSA Handbook, Volume 6, Chapter 3. Specifically, within the next 60 days, SCC must:*

1. *Notify the Department of Education of Intent to Liquidate;*
2. *Begin the Process to Assign Loans to the Department of Education after performing the actions addressed in Finding 3; and*
3. *Initiate Independent Federal Perkins Program Audit, providing a copy of the letter of engagement for an independent auditor to program reviewers as part of the institution's response to the PRR*

Once SCC's Federal Perkins loan liquidation process is underway, SCC must ensure continued NSLDS reporting and updates until the assignments have been made and accepted by the Department. Once the assignments are complete, SCC must return the Federal Capital Contribution to the Department as determined by the independent auditor and verified by the Department and file a final FISAP. If SCC needs more information on this process, the institution should contact the Campus-Based Division at 877-801-7168.

SCC's Response: In its response, SCC indicated they had previously notified the Department of the institution's intent to liquidate the Perkins loan portfolio on February 25, 2014. Additionally, the institution indicated they are prepared to begin the process of assignment once the actions required as part of Finding 3 are completed. Finally, SCC provided a copy of its letter of engagement for an independent auditor.

Final Determination: The Department reviewed SCC's response for Finding 1 and accepts the institution's response and demonstration of compliance for the requirements outlined in this finding. SCC provided a copy of the letter submitted to the Grants and Campus Based Division dated February 25, 2014, which expressed the institution's intent to liquidate its portfolio as directed as well as institutional contact information which would be utilized during the process. On October 2, 2014, SCC engaged an independent auditor who indicated work would commence effective November 20, 2014 and be completed by December 10, 2014. As SCC is in the process of liquidation, no further action is required by the Department at this time. SCC should continue to work with the Campus Based Division of the Department to ensure the process is completed and that the loan assignment process is completed in a timely manner.

Findings with Final Determinations

The program review report findings requiring further action are summarized below. At the conclusion of each finding is a summary of SCC's response to the finding, and the Department's final determination for that finding. A copy of the program review report issued on July 9, 2014, is attached as Appendix C.

Note: Any additional costs to the Department, including interest, special allowances, cost of funds, unearned administrative cost allowance, etc., are not included in individual findings, but instead are included in the Summary of Liabilities Table in Section D of the report.

Finding 3. Failure to Retain/Originate Valid Perkins Promissory Notes

Citation Summary: *Before an institution makes its first disbursement to a student, the student shall sign the promissory note and the institution shall provide the student with required information, such as the name of the institution and the address to which communications and payments should be sent; the principal amount of the loan and a statement that the institution will report the amount of the loan to a national credit bureau at least annually; the stated interest rate on the loan; the yearly and cumulative maximum amounts that may be borrowed; an explanation of when repayment of the loan will begin and when the borrower will be obligated to pay interest that accrues on the loan; the minimum and maximum repayment terms which the institution may impose and the minimum monthly repayment required; a statement of the total cumulative balance owed by the student to that institution, and an estimate of the monthly payment amount needed to repay that balance; special options the borrowers may have for loan consolidation or other refinancing of the loan; the borrower's right to prepay all or part of the loan, at any time, without penalty, and a summary of the circumstances in which repayment of the loan or interest that accrues on the loan may be deferred or canceled including a brief notice of the Department of Defense program for repayment of loans on the basis of specified military service; a definition of default and the consequences to the borrower, including a statement that the institution may report the default to a national credit bureau; the effect of accepting the loan on the eligibility of the borrower for other forms of student assistance; the amount of any charges collected by the institution at or prior to the disbursement of the loan and any deduction of such charges from the proceeds of the loan or paid separately by the borrower; and any cost that may be assessed on the borrower in the collection of the loan including late charges and collection and litigation costs. The institution shall provide the information in paragraph (a)(1) of this section to the borrower in writing as part of the written application material; as part of the promissory note; or on a separate written form. The institution shall ensure that each loan is supported by a legally enforceable promissory note as proof of the borrower's indebtedness. 34 C.F.R. §674.16*

An institution may use only the promissory note that the Secretary provides. The institution may make only non-substantive changes, such as changes to the type style or font, or the addition of items such as the borrower's driver's license number, to this note. 34 C.F.R. §674.31(a)(1)

Noncompliance Summary: *A review of promissory notes selected for review indicated SCC failed to properly originate loans in four categories discussed below.*

Loan Origination Using Expired Promissory Notes

In 10 instances, SCC originated loans using promissory notes which were expired. A review of promissory notes originated during the 2006-2007 award year reflected SCC utilized Federal Perkins Master Promissory Notes (OMB No. 1845-0074) which expired on 06/30/2006 to originate and disburse loans made in October 2006 for Students #4, #11, #12, #17, and #50. SCC continued this practice during the 2009-2010, 2010-2011, and 2011-2012 award years, using Federal Perkins Master Promissory Notes which expired on 06/30/2009 to originate and disburse loans to Students #5, #8, #22, #43, and #62. It does not appear that SCC corrected this practice and secured signatures from students for these funds using promissory notes which would be considered valid and enforceable.

Incomplete/Improper Promissory Notes

In nine instances, SCC failed to provide complete promissory notes to student borrowers or ensure borrowers returned complete promissory notes to corroborate the disbursement provided. For example, Students #9, #14, #16, and #71 were not provided promissory notes which included the institution's name, contact information, amount of their loan, and the loan period associated with the promissory note. Even after accepting these notes, there is no record the institution obtained revised promissory notes which were complete and accurate. Additionally, in the case of Student #2, SCC failed to ensure the student had legally signed their name and provided a relevant date on the note. The student did not include the year the promissory note was endorsed as required. In the case of Student #68, SCC failed to ensure the student signed the signature area noted on the promissory note to affirm receipt of the funds disbursed on 03-05-2001. In the case of Student #47, the institution failed to ensure the promissory note was addressed and signed using the student's legal name. A review of the promissory note reflects the promissory was addressed using a name which does not correspond to the student who is deemed as the borrower in NSLDS. A review of Student #49's promissory note compared to NSLDS indicates a discrepancy in the SSN. The promissory note, which was signed by the student, reflects a SSN which differs from how the institution reported the student to NSLDS, providing the appearance of conflicting data which has not been resolved and making it impossible to enforce the debt as the institution reported the debt on another student's identifier. Finally, in the case of

Student #58, SCC failed to ensure the student signed the promissory note which was presented to account for the Federal Perkins funds disbursed on the student's behalf.

Altered Promissory Notes

In two instances, SCC collected and retained altered promissory notes for student borrowers. In the case of Student #53, SCC collected a promissory note which appears to have an altered signature area. In the case of Student #69, the institution retained as a valid note a promissory note which has been altered in both the signature area and in the borrower information.

Missing Promissory Notes

In two instances, SCC failed to retain promissory notes to encompass all disbursements of Federal Perkins loan funds. A review of promissory notes compared to disbursements in NSLDS as well as the institutional records reflect Student #40 was awarded and disbursed $2,050.00; however, SCC could provide promissory notes to substantiate only $1,150.00 in Federal Perkins Loan fund disbursements. In the case of Student #52, a review of promissory notes compared to disbursements in NSLDS as well as institutional records reflect the student received $3,804.50; however, SCC could provide promissory notes to substantiate only $2,429.50 in Federal Perkins Loan fund disbursements.

***Required Action Summary:** SCC was required to review the students referenced above to determine if any additional documentation can be provided to substantiate the disbursements or to explain any discrepancies. As it appears SCC has a systemic issue with ensuring Perkins loan compliance and as the institution is being required to liquidate its portfolio as discussed in Finding 1, SCC was required to perform a file reconstruction of all outstanding loans currently held by the institution or being serviced by the institution and provide copies of all promissory notes as well as copies of all repayment schedules to the Department to confirm the institution has all required documents to complete the Perkins assignment and liquidation process as required by regulation and referenced in the December 2013 letter sent to the institution by the Campus Based Division. SCC was required to perform the reconstruction and provide the requisite documentation prior to finalizing the liquidation process as discussed in Finding 1.*

SCC's Response: SCC indicated they had reviewed all outstanding loan files, including promissory notes and repayment schedules and provided hard copies of these documents as well as a spreadsheet with pertinent outstanding loan data to the Department as required as part of the program review.

Final Determination: The Department reviewed SCC's response, including the submitted Federal Perkins promissory notes and repayment schedules to determine overall the completeness of the records retained by the institution. One of the areas closely scrutinized pertained to the expired promissory notes and the institution's continued use of these instruments even after the valid origination period had expired. Upon further examination of the guidance issued to schools regarding the acceptable window for expired promissory notes to be used, reviewers determined the loans for Students #4, #11, #12, #17, #50, and #62, on their face value, appear to be eligible for assignment as the guidance in DCL CB 09-05. A review of loans originated on Perkins promissory notes which expired in June 2009 reflect SCC continued to originate and disburse loan funds to 34 students, including Students #5, #8, #22, and #43 discussed in the program review report, using expired Perkins Loan promissory notes throughout the 2010 and 2011 calendar years and did not secure updated, valid promissory notes, even though the Department provided updated promissory notes in September 2009. Consequently, SCC will be required to make whole its Federal Perkins Loan fund for these 34 promissory notes.

An additional review of the file reconstruction performed by the institution to assess the promissory notes retained by the institution found SCC failed to comprehensively retain all promissory notes for 27 students who received Federal Perkins Loan fund disbursements, including Students #40 and #52 discussed in the original program review report.

After performing a comprehensive review of the promissory notes retained by the institution as part of the requirements for Finding 3, the Department has assessed liabilities for the Federal share of the ineligible Federal Perkins Loans in the amount of **$97,450.11** ($79,796.25 in principal and $17,653.86 in interest funds to be returned). In lieu of allowing the institution to transfer these funds from its own accounts to make the Federal Perkins Loan account whole, the Department is requiring SCC to repay these funds to the Department on behalf of the students identified in Appendices A, B, and E.

SCC must notify all students identified in the Appendices referenced above in writing regarding payments made on their behalf and make the required adjustment in NSLDS as discussed in the payment instructions in Section E. This notification must include the amount and date of the payments.

Finding 4. Improper Write-Off of Federal Perkins Loan Funds

Citation Summary: *Institutions are required to follow the Due Diligence requirements of Subpart C of the Federal Perkins loan regulations and must afford the borrower maximum opportunity to repay a Federal Perkins loan. 34 C.F.R. §674.41-50*

If the institution has followed all due diligence procedures, some Federal Perkins loan accounts may be written off under certain circumstances. An institution may write off an account with a balance of less than $25.00 (including outstanding principal, accrued interest, collection costs, and late charges. A school may write off an account with a *balance of less than $50.00 if your school appropriately billed the borrower for at least two years. If a school writes off an account, the borrower is relieved of all payment obligations and the school must deduct the amount of the account from the Federal Perkins Loan fund. If a payment is received from a borrower after the balance has been written off, the payment must be deposited into the Federal Perkins Loan fund. 34 C.F.R. §674.47(h)*

Noncompliance Summary: *During the off-site review of Federal Perkins loan records, reviewers found eight students whose loans had been written off by SCC above the allowed threshold. A review of Student # 19, 35, 39, 64, 66, 72, 73, and #75's loan history reflects SCC wrote off loan balances above the threshold, writing off balances ranging from $300.00 for Student #39 to $1,600.00 for Student #73. In two of these instances, SCC also failed to remove the aggregate loan balance which was to have been forgiven by the institution through the write-off process.*

A review of Student #64's NSLDS loan history reflects the student was awarded a Federal Perkins loan in the amount of $500.00. The records do not indicate the student made any payments on this account prior to the write-off date of February 2002. In February 2002, SCC notated NSLDS to indicate the loan was "DW: Defaulted, Write-Off"; however, SCC failed to remove the outstanding balance which should have been forgiven as of the date of the improper write-off. Student #75 was awarded a Federal Perkins loan in the amount of $450.00. Information in NSLDS does not indicate the student made any payments on this account prior to the write-off date of March 2002. In March 2002, SCC notated NSLDS to indicate the loan was "DW: Defaulted, Write-Off"; however, SCC failed to remove the outstanding balance which should have been forgiven as of the date of the improper write-off.

Required Action Summary: *In response to this report, SCC must conduct an analysis of its Federal Perkins Loan records and provide a report listing all Federal Perkins loan balances which have been written off for amounts greater than $50.00. The report should include the amount of any write-offs. The report should also include a listing of any write-off amounts less than $50.00 where the borrower was not appropriately billed for that amount for a period of at least two years as required by regulation.*

SCC may be held liable for any of these improper write-offs. Instructions for the repayment of any liabilities will be provided in the FPRD. The institution must not repay any funds owed to the Department or return any funds to the institution's Federal Perkins account until the FPRD is issued. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

SCC's Response: SCC indicated they were not aware that any Perkins loans, over the allowed threshold, were written off since they became associated with Campus Partners in 2002. Additionally, the institution indicated that through their review of borrowers they were unable to find any additional students whose loans were written off;

consequently, the institution believes the students referenced in the program review report were isolated cases.

Final Determination: The Department reviewed SCC's response regarding additional Perkins loans which were improperly written off and accept the institution's response. A further review of records identified by the Department reflects loans for Students #64 and #75 were transferred to Debt Collection Service even though the institution indicated in its records the loans were previously written off. SCC must contact Debt Collection Service and resolve the discrepancies in the loans for Students #64 and #75 and provide documentation to reviewers to demonstrate the loan records have been corrected.

Finding 5. Improper Charges to Federal Perkins Loan Bank Account

Citation Summary: *Federal regulations require that funds received by an institution under the Title IV, HEA programs are held in trust for the intended student beneficiaries or the Department. The institution, as a trustee of Federal funds, may not use or hypothecate (i.e., use as collateral) Title IV funds for any other purpose. 34 C.F.R. § 668.161(b)*

Noncompliance Summary: *SCC maintains two Federal Perkins Loan bank accounts at the same institution. One of the accounts has been used for the sole purpose of receiving funds from its Perkins Loan servicer, Campus Partners, while the other account was used for disbursement of Federal Perkins Loan funds to students. A review of the bank statements for the period of July 31, 2010 to February 28, 2014, reflects the institution's Federal Perkins Loan account which was utilized to provide disbursements to students was assessed a $25.00 Overdraft Charge for a check which was presented on November 22, 2011. A review of subsequent bank statements does not reflect the institution reimbursed the federal account for this improper charge.*

Additionally, a review of bank statements related to the Perkins loan disbursement account commencing with the June 30, 2012 statement reflects the institution was assessed a "Dormant Service Charge" in the amount of $3.00 monthly throughout the remainder of the 2012 calendar year and continuing in January 2013. In February 2013, the institution continued to be assessed the "Dormant Service Charge"; however, the fee was increased to $5.00 per month and continued on a monthly basis through the February 2014 bank statement (the last statement provided to reviewers). In total, the Federal Perkins Loan bank account which was used to provide loan funds to student borrowers was assessed $86.00 in "Dormant Service Charges". Overall, the review of the bank statements reflect SCC's Federal Perkins account was charged $111.00 in fees which do not appear to have been repaid by the institution to the fund.

Required Action Summary: *SCC was required to review its bank statements for the time frames referenced above as well as for the months subsequent to the February 2014* *bank statement to determine if any additional service charges have been assessed to the Federal Perkins bank account and provide copies of all Perkins account bank statements from February 2014 to the present to reviewers with SCC's response to this program review report. Any charges paid for by Title IV, HEA funds that were not reimbursed with institutional funds will be a liability to the institution.*

SCC's Response: SCC indicated they had reviewed all bank statements from February 2014 to determine any outstanding service charges assessed to the account. The institution indicated they had reimbursed the Perkins loan account for the charges assessed and provided a copy of a check from its operating account to its Perkins account in the amount of $121.00 to reviewers as evidence of reimbursement.

Final Determination: The Department reviewed the bank statements provided by SCC for the months subsequent to February 2014. The review determined $30.00 in service charges has been assessed again the Perkins loan account from March 2014 through August 2014; making the total charges levied against the Perkins Loan account to be $141.00. Although program reviewers acknowledge the institution transferred $121.00 to the Perkins account, SCC must make the account fully whole. Consequently, SCC must transfer an additional **$20.00** from its operating account to its Federal Perkins Loan fund account and provide evidence to program reviewers the transfer has occurred.

D. Summary of Liabilities

The total amount calculated as liabilities from the findings in the program review determination is as follows.

Liabilities	**Federal Perkins Loan Fund**	
Finding 3	$79,796.25	[redacted]
Finding 4	$0	[redacted]
Finding 5	$20.00	[redacted]
Subtotal	**$79,816.25**	[redacted]
Interest/SA	**$17,653.86**	[redacted]
Excess Cash		[redacted]
Subtotal	**$97,470.11**	[redacted]
TOTAL	**$97,470.11**	[redacted]
Payable To:		**Totals**
Department	**$97,450.11**	
Institutional Perkins Account	**$20.00**	

E. Payment Instructions

Liabilities Owed to the Department $1,000 or More but Less Than $100,000

SCC owes to the Department **$97,450.11.** Payment must be made by forwarding a check made payable to the "U.S. Department of Education" to the following address within 45 days of the date of this letter:

U.S. Department of Education
P.O. Box 979026
St. Louis, MO 63197-9000

Remit checks only. Do not send correspondence to this address.

Payment must be made via check and sent to the above Post Office Box. Payment and/or adjustments made via G5 will not be accepted as payment of this liability. Instead, the school must first make any required adjustments in COD as required by the applicable finding(s) and Section II – Instructions by Title IV, HEA Program (below), remit payment, and upon receipt of payment the Department will apply the funds to the appropriate G5 award (if necessary).

The following identification data must be provided with the payment:

Amount: **$97,450.11**
DUNS: **123576258**
TIN: **610846809**
Program Review Control Number: **201430728615**

Terms of Payment

As a result of this final determination, the Department has created a receivable for this liability and payment must be received by the Department within **45 days of the date of this letter**. If payment is not received within the 45-day period, interest will accrue in monthly increments from the date of this determination, on the amounts owed to the Department, at the current value of funds rate in effect as established by the Treasury Department, until the date of receipt of the payment. SCC is also responsible for repaying any interest that accrues. If you have any questions regarding interest accruals or payment credits, contact the Department's Accounts Receivable Group at (202) 245-8080 and ask to speak to SCC's account representative.

If full payment cannot be made within **45** days of the date of this letter, contact the Department's Accounts Receivable Group to apply for a payment plan. Interest charges and other conditions apply. Written request may be sent to:

U.S. Department of Education
OCFO Financial Management Operations
Accounts Receivable Group
550 12th Street, S.W., Room 6114
Washington, DC 20202-4461

If within 45 days of the date of this letter, SCC has neither made payment in accordance with these instructions nor entered into an arrangement to repay the liability under terms satisfactory to the Department, the Department intends to collect the amount due and payable by administrative offset against payments due SCC from the Federal Government. **SCC may object to the collection by offset only by challenging the existence or amount of the debt.** To challenge the debt, SCC must **timely appeal** this determination under the procedures described in the "Appeal Procedures" section of the cover letter. The Department will use those procedures to consider any objection to offset. **No separate appeal opportunity will be provided.** If a timely appeal is filed, the Department will defer offset until completion of the appeal, unless the Department determines that offset is necessary as provided at 34 C.F.R. § 30.28. This debt may also be referred to the Department of the Treasury for further action as authorized by the Debt Collection Improvement Act of 1996.

Campus Based Programs

Finding: 3

Appendices: A, B, and E

SCC must return **$97,450.11** in principal and interest to the Department in lieu of depositing to the institution's Federal Perkins Loan Revolving Fund. National Student Loan Data System (NSLDS) must be corrected for each borrower to reflect the new reduced or cancelled Perkins Loan amount.

As a result of the improper loan disbursements without legally enforceable promissory notes, SCC must pay the total amount of **$97,450.11** (the total of principal and interest) by removing the Perkins loan from the students identified in Appendices A, B, and E and returning the funds, including principal and interest, to the Department.

SCC must submit the following **within 45 days of the date of this letter** to Kathy Feith:

- Copy of the front and back of the check issued to the Department as well as a copy of the cancelled check(s), or copies of an electronic transfer of funds, to verify that the payment has been made to the Department via check as instructed in the FPRD;

- Documentation that the individual NSLDS loan records have been updated to reflect zero balances and a status of "PF" or the appropriate status as required by action taken on the loan;

- Documentation indicating all Federal Perkins Loan funds previously disbursed by SCC has been removed from student's Title IV, HEA loan history. The institution must include copies of any communications made with the borrowers which indicate the loan records have been corrected to reflect the removal of previously credited Title IV, HEA loan funds.

- Copy of communications to the institution's third party servicer, Campus Partners, regarding any Perkins Loan funds which are reversed to ensure student communications and other collection efforts are terminated as of the reversal of loan funds.

Institutional Accounts

Finding: 5

SCC must deposit **$20.00** in the institution's Federal Perkins Loan Revolving Fund.

SCC must submit to Kathy Feith a copy of the front and back of the cancelled check, or copies of an electronic transfer of funds, to verify that the payment has been made to the Federal Perkins Loan account, **within 45 days of the date of this letter.**

Prepared for

St. Catharine College

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

PROUD SPONSOR of the AMERICAN MIND™

OPE ID 00198300
PRCN 2014 3 07 28615

Prepared by
U.S. Department of Education
Federal Student Aid
School Participation Division—Kansas City

Program Review Report

July 9, 2014

1010 Walnut Street, Suite 336, Kansas City, MO 64106-2147
StudentAid.gov

Table of Contents

A. Institutional Information

St. Catharine College
2735 Bardstown Road
St. Catharine, KY 40061-9499

Type: Private, Non-profit

Highest Level of Offering: Master's Degree

Accrediting Agency: Southern Association of Colleges and Schools Commission on Colleges (SACS)

Current Student Enrollment: 759 (2012-2013 award year)

% of Students Receiving Title IV: 57% (2012-2013)

Title IV Participation G5:

	2012-2013
Federal Pell Grant	$ 1,562,857.00
Federal Supplemental Educational Opportunity Grant (FSEOG)	$36,950.00
Federal Work Study Program (FWS)	$44,760.00
William D. Ford Federal Direct Loan Program	$ 4,621,734.00
Federal Perkins Loan Program	$1,000.00
Total	**$6,267,301.00**

Default Rate FFEL/DL:	2011	12.7%
	2010	13.0%
	2009	7.8%

Default Rate Perkins:	June 2013	65.0%
	June 2012	50.0%
	June 2011	52.6%

B. Scope of Review

The U.S. Department of Education (the Department) conducted an off-site program review at St. Catharine College (SCC) from May 27, 2014 to June 6, 2014. The review was conducted by Ms. Kathy Feith.

The focus of the review was SCC's Federal Perkins Loan program compliance as well as its Federal Perkins Loan default rate. The review consisted of an examination of SCC's Federal Perkins Loan promissory notes as well as its due diligence procedures and its Federal Perkins bank account.

75 Federal Perkins Loan fund recipients were identified for review from the all award years in which SCC has participated in the Federal Perkins Loan program. The files were selected randomly from a statistical sample of the total population receiving Federal Perkins Loan program funds. Appendix A lists the names and partial social security numbers of the students whose Perkins Loan files were examined during the program review.

Disclaimer:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning SCC's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, it does not relieve SCC of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

This report reflects initial findings. These findings are not final. The Department will issue its final findings in a subsequent Final Program Review Determination letter.

C. Findings

During the review, several areas of noncompliance were noted. Findings of noncompliance are referenced to the applicable statutes and regulations and specify the actions to be taken by SCC to bring operations of the financial aid programs into compliance with the statutes and regulations.

Finding 1. Failure to Maintain Eligibility to Participate in the Federal Perkins Loan Program

Citation: If an institution's cohort default rate meets the following levels, a default penalty is imposed on the institution as follows:

- For award year 2000-2001 and succeeding award years, an institution with a cohort default rate that equals or exceeds 50 percent for each of the three most recent years for which cohort default rate data are available is ineligible to participate in the Federal Perkins Loan Program. Following a review of that data and upon notification by the Secretary, an institution is ineligible to participate for the award year, or the remainder of the award year, in which the determination is made and the two succeeding award years. An institution may appeal a notification of ineligibility from the Secretary within 30 days of its receipt. If the institution appeals, the Secretary issues a decision on an appeal within 45 days of the institution's submission of a complete, accurate, and timely appeal. An institution may continue to participate in the program until the Secretary issues a decision on the institution's appeal.

Within 90 days of receiving a notification of ineligibility or, if the institution appeals, within 90 days of the Secretary's decision to deny the appeal, the institution must liquidate its revolving student loan fund by making a capital distribution of the liquid assets of the Fund according to section 466(c) of the HEA; and assign any outstanding loans in the institution's portfolio to the Secretary in accordance with §674.50. *34 C.F.R. 674.5 (a)(2)(C)(ii)(A)* and *(B)*

Noncompliance: SCC's Federal Perkins Loan program default rate has exceeded the allowed threshold for continued participation during the three most recent cohort default rate years. For the three most recent reporting years the default rates are as follows:

As of June 30, 2013 (2012-2013 Award Year)	**65.0%**
As of June 30, 2012 (2011-2012 Award Year)	**50.0%**
As of June 30, 2011 (2010-2011 Award Year)	**52.6%**

SCC was notified October 23, 2013 it was no longer eligible to participate in the Federal Perkins Loan program and provided information regarding how to appeal the default rate if the institution decided to try to remain as a participant in the program. On December 20, 2013, correspondence from the Campus Based Operations Division was sent to SCC to indicate that since the institution did not appeal the rates released in October, the institution was required to begin the liquidation process as SCC is no longer eligible to participate in the Federal Perkins Loan program.

Required Action: SCC was notified in December 2013 to liquidate its Federal Perkins loan portfolio and assign all loans to the Department within 90 days of notification the institution was no longer eligible to participate in the Federal Perkins loan program. At the time the off-site review began, SCC indicated they had not begun the liquidation process. During the exit conference, SCC staff indicated they had begun to compile the student lists for assignment although the assignment process had not commenced. As part of the requirements for this finding, SCC must provide documentation to program reviewers which indicate compliance with this mandate. Specifically, SCC should review Electronic Announcement 2013-4-19 to determine the process for liquidation and the appropriate steps and timeframe to ensure compliance with the requirements of the program review report as well as the mandates from the Campus Based Division. SCC must review the contents of the communications sent by Campus Based operations to ensure they are aware of all steps of the liquidation and are prepared to complete as required and provide proof of compliance to reviewers. If SCC requires assistance with this process, please contact the Campus Based Division at 877-801-7168. If SCC has not begun to comply with this directive at the time of this report, the institution must contact Campus Based to explain the delays and provide assurances to the reviewers as well as Campus Based staff the institution intends to comply with the required liquidation and provide the timeframe the requirements will be met. As discussed in Finding 3, SCC appears to have failed to maintain enforceable promissory notes in many instances. As the institution cannot fully begin the liquidation process prior to ascertaining the number of promissory notes which must be purchased by the institution, SCC must complete the requirements for Finding 3 prior to the liquidation process. Once SCC is able to fully establish the loans which are eligible to be assigned based on the results of Finding 3 and the number of loans which are required to be purchased by the institution (and thus ineligible for assignment), SCC will be responsible for beginning the liquidation process. SCC should review the requirements for liquidation as outlined in Electronic Announcement 2013-4-19 as well as in the FSA Handbook, Volume 6, Chapter 3. Specifically, within the next 60 days, SCC must:

4. Notify the Department of Education of Intent to Liquidate;
5. Begin the Process to Assign Loans to the Department of Education after performing the actions addressed in Finding 3; and

6. Initiate Independent Federal Perkins Program Audit, providing a copy of the letter of engagement for an independent auditor to program reviewers as part of the institution's response to the PRR

Once SCC's Federal Perkins loan liquidation process is underway, SCC must ensure continued NSLDS reporting and updates until the assignments have been made and accepted by the Department. Once the assignments are complete, SCC must return the Federal Capital Contribution to the Department as determined by the independent auditor and verified by the Department and file a final FISAP. If SCC needs more information on this process, the institution should contact the Campus-Based Division at 877-801-7168.

Finding 2. Failure to Maintain Documentation to Support Due Diligence Performed

Citation: An institution may cease collection activity on a defaulted account with a balance of less than $200.00, including outstanding principal, accrued interest, collection costs, and late charges, if the institution has carried out the due diligence procedures described in Subpart C of this part with regard to this account; and for a period of at least four years, the borrower has not made a payment on the account, converted the account to a regular repayment status, or applied for a deferment, postponement, or cancellation on the account. Notwithstanding any other provision of this subpart, an institution may write off an account, including outstanding principal, accrued interest, collection costs, and late charges, with a balance of less than $25.00; or less than $50.00 if, for a period of at least two years, the borrower has been billed for this balance in accordance with 34 C.F.R. §674.43(a). When the institution writes off an account, the borrower is relieved of all repayment obligations. *34 C.F.R. §674.47(g)* and *(h)*

The institution is responsible for ensuring compliance with the billing and collection procedures set forth in this subpart. The institution may use employees to perform these duties or may contract with other parties to perform them. An institution that contracts for performance of any duties under this subpart remains responsible for compliance with the requirements of this subpart in performing these duties, including decisions regarding cancellation, postponement, or deferment of repayment, extension of the repayment period, other billing and collection matters, and the safeguarding of all funds collected by its employees and contractors. *34 C.F.R. §674.48 (a)* and *(b)*

If an institution uses a billing service to carry out billing procedures under §674.43, the institution shall ensure that the service provides at least quarterly, a statement to the institution which shows Its activities with regard to each borrower; any changes in the borrower's name, address, telephone number, and, if known, any changes to the borrower's Social Security number; and amounts collected from the borrower.

Noncompliance: During the review of Federal Perkins loan records, the institution was requested to provide the due diligence documentation to substantiate the efforts made by Campus Partners, the institution's servicer, to demonstrate due diligence had been properly done for the past award years. The institution provided one monthly report, labeled "student loan journal", to reviewers as its way to demonstrate due diligence had been performed. However, a review of the loan journal revealed it is not comprehensive and does not demonstrate the institution has performed the yearly due diligence activities as mandated. In total, the report submitted by the institution only provided information on approximately 180 previous borrowers who were provided funds by the institution, although the current outstanding borrower total for SCC exceeds 200 and the comprehensive number of borrowers overall exceeds 700. The report in and of itself did not support the institution's claim that due diligence had been performed for all pertinent borrowers.

Required Action: SCC must review with its servicer the due diligence activities which were performed to determine the students who were/were not afforded due diligence efforts on their Perkins loans. SCC must provide a copy of any due diligence documentation which is obtained from Campus Partners to the Department in its response to this report to affirm the required activities were performed at least annually.

Finding 3. Failure to Retain/Originate Valid Perkins Promissory Notes

Citation: Before an institution makes its first disbursement to a student, the student shall sign the promissory note and the institution shall provide the student with required information, such as the name of the institution and the address to which communications and payments should be sent; the principal amount of the loan and a statement that the institution will report the amount of the loan to a national credit bureau at least annually; the stated interest rate on the loan; the yearly and cumulative maximum amounts that may be borrowed; an explanation of when repayment of the loan will begin and when the borrower will be obligated to pay interest that accrues on the loan; the minimum and maximum repayment terms which the institution may impose and the minimum monthly repayment required; a statement of the total cumulative balance owed by the student to that institution, and an estimate of the monthly payment amount needed to repay that balance; special options the borrowers may have for loan consolidation or other refinancing of the loan; the borrower's right to prepay all or part of the loan, at any time, without penalty, and a summary of the circumstances in which repayment of the loan or interest that accrues on the loan may be deferred or canceled including a brief notice of the Department of Defense program for repayment of loans on the basis of specified military service; a definition of default and the consequences to the borrower, including a statement that the institution may report the default to a national credit bureau; the effect of accepting the loan on the eligibility of the borrower for other forms of student assistance; the amount of any charges collected by the institution at or prior to the disbursement of the loan and any deduction of such charges from the proceeds of the loan or paid separately by the borrower; and any cost that may be assessed on the borrower in the collection of the loan including late charges and collection and litigation costs. The institution shall provide the information in paragraph (a)(1) of this section to the borrower in writing as part of the written application material; as part of the promissory note; or on a separate written form. The institution shall ensure that each loan is supported by a legally enforceable promissory note as proof of the borrower's indebtedness. *34 C.F.R. §674.16*

An institution may use only the promissory note that the Secretary provides. The institution may make only non-substantive changes, such as changes to the type style or font, or the addition of items such as the borrower's driver's license number, to this note. *34 C.F.R. §674.31(a)(1)*

Noncompliance: A review of promissory notes selected for review indicated SCC failed to properly originate loans in four categories discussed below.

Loan Origination Using Expired Promissory Notes

In 10 instances, SCC originated loans using promissory notes which were expired. A review of promissory notes originated during the 2006-2007 award year reflected SCC utilized Federal Perkins Master Promissory Notes (OMB No. 1845-0074) which expired on 06/30/2006 to originate and disburse loans made in October 2006 for *Students #4, #11, #12, #17*, and #50. SCC continued this practice during the 2009-2010, 2010-2011, and 2011-2012 award years, using Federal Perkins Master Promissory Notes which expired on 06/30/2009 to originate and disburse loans to *Students #5, #8, #22, #43*, and #62. It does not appear that SCC corrected this practice and secured signatures from students for these funds using promissory notes which would be considered valid and enforceable.

Incomplete/Improper Promissory Notes

In nine instances, SCC failed to provide complete promissory notes to student borrowers or ensure borrowers returned complete promissory notes to corroborate the disbursement provided. For example, *Students #9, #14, #16*, and *#71* were not provided promissory notes which included the institution's name, contact information, amount of their loan, and the loan period associated with the promissory note. Even after accepting these notes, there is no record the institution obtained revised promissory notes which were complete and accurate. Additionally, in the case of *Student* #2, SCC failed to ensure the student had legally signed their name and provided a relevant date on the note. The student did not include the year the promissory note was endorsed as required. In the case of *Student #68*, SCC failed to ensure the student signed the signature area noted on the promissory note to affirm receipt of the funds disbursed on 03-05-2001. In the case of *Student #47*, the institution failed to ensure the promissory note was addressed and signed using the student's legal name. A review of the promissory note reflects the promissory was addressed using a name which does not correspond to the student who is deemed as the borrower in NSLDS. A review of *__Student #49__*'s promissory note compared to NSLDS indicates a discrepancy in the SSN. The promissory note, which was signed by the student, reflects a SSN which differs from how the institution reported the student to NSLDS, providing the appearance of conflicting data which has not been resolved and making it impossible to enforce the debt as the institution reported the debt on another student's identifier. Finally, in the case of *__Student #58__*, SCC failed to ensure the student signed the promissory note which was presented to account for the Federal Perkins funds disbursed on the student's behalf.

Altered Promissory Notes

In two instances, SCC collected and retained altered promissory notes for student borrowers. In the case of *__Student #53__*, SCC collected a promissory note which appears to have an altered signature area. In the case of *__Student #69__*, the institution retained as a valid note a promissory note which has been altered in both the signature area and in the borrower information.

Missing Promissory Notes

In two instances, SCC failed to retain promissory notes to encompass all disbursements of Federal Perkins loan funds. A review of promissory notes compared to disbursements in NSLDS as well as the institutional records reflect *__Student #40__* was awarded and disbursed $2,050.00; however, SCC could provide promissory notes to substantiate only $1,150.00 in Federal Perkins Loan fund disbursements. In the case of *__Student #52__*, a review of promissory notes compared to disbursements in NSLDS as well as institutional records reflect the student received $3,804.50; however, SCC could provide promissory notes to substantiate only $2,429.50 in Federal Perkins Loan fund disbursements.

Required Action: SCC must review the students referenced above to determine if any additional documentation can be provided to substantiate the disbursements or to explain any discrepancies. As it appears SCC has a systemic issue with ensuring Perkins loan compliance and as the institution is being required to liquidate its portfolio as discussed in Finding 1, SCC must perform a file reconstruction of all outstanding loans currently held by the institution or being serviced by the institution. Additionally, SCC must provide copies of all promissory notes as well as copies of all repayment schedules to the Department to confirm the institution has all required documents to complete the Perkins assignment and liquidation process as required by regulation and referenced in the December 2013 letter sent to the institution by the Campus Based Division. SCC should perform the reconstruction and provide the requisite documentation prior to finalizing the liquidation process as discussed in Finding 1. Once the institution provides the required information to reviewers and is able to determine loans which are not considered enforceable, SCC can then begin work on the finalization of the work outlined in Finding 1.

Instructions for the repayment of any liabilities will be provided in the Final Program Review Determination (FPRD) letter. The institution must not repay any funds owed to the Department or return any funds to the institution's Federal Perkins loan account until the FPRD is issued. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

Finding 4. Improper Write-Off of Federal Perkins Loan Funds

Citation: Institutions are required to follow the Due Diligence requirements of Subpart C of the Federal Perkins loan regulations and must afford the borrower maximum opportunity to repay a Federal Perkins loan. *34 C.F.R. §674.41-50*

If the institution has followed all due diligence procedures, some Federal Perkins loan accounts may be written off under certain circumstances. An institution may write off an account with a balance of less than $25.00 (including outstanding principal, accrued interest, collection costs, and late charges. A school may write off an account with a balance of less than $50.00 if your school appropriately billed the borrower for at least two years. If a school writes off an account, the borrower is relieved of all payment obligations and the school must deduct the amount of the account from the Federal Perkins Loan fund. If a payment is received from a borrower after the balance has been written off, the payment must be deposited into the Federal Perkins Loan fund. *34 C.F.R. §674.47(h)*

Noncompliance: During the off-site review of Federal Perkins loan records, reviewers found eight students whose loans had been written off by SCC above the allowed threshold. A review of *Student # 19, 35, 39, 64, 66, 72, 73*, and #*75's* loan history reflects SCC wrote off loan balances above the threshold, writing off balances ranging from $300.00 for *Student #39* to $1,600.00 for *Student #73*. In two of these instances, SCC also failed to remove the aggregate loan balance which was to have been forgiven by the institution through the write-off process.

A review of *Student #64*'s NSLDS loan history reflects the student was awarded a Federal Perkins loan in the amount of $500.00. The records do not indicate the student made any payments on this account prior to the write-off date of February 2002. In February 2002, SCC notated NSLDS to indicate the loan was "DW: Defaulted, Write-Off"; however, SCC failed to remove the outstanding balance which should have been forgiven as of the date of the improper write-off. *Student #75* was awarded a Federal Perkins loan in the amount of $450.00. Information in NSLDS does not indicate the student made any payments on this account prior to the write-off date of March 2002. In March 2002, SCC notated NSLDS to indicate the loan was "DW: Defaulted, Write-Off"; however, SCC failed to remove the outstanding balance which should have been forgiven as of the date of the improper write-off.

Required Action: In response to this report, SCC must conduct an analysis of its Federal Perkins Loan records and provide a report listing all Federal Perkins loan balances which have been written off for amounts greater than $50.00. The report should include the amount of any write-offs. The report should also include a listing of any write-off amounts less than $50.00 where the borrower was not appropriately billed for that amount for a period of at least two years as required by regulation.

SCC may be held liable for any of these improper write-offs. Instructions for the repayment of any liabilities will be provided in the FPRD. The institution must not repay any funds owed to the Department or return any funds to the institution's Federal Perkins account until the FPRD is issued. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

Finding 5. Improper Charges to Federal Perkins Loan Bank Account

Citation: Federal regulations require that funds received by an institution under the Title IV, HEA programs are held in trust for the intended student beneficiaries or the Department. The institution, as a trustee of Federal funds, may not use or hypothecate (i.e., use as collateral) Title IV funds for any other purpose. *34 C.F.R. § 668.161(b)*

Noncompliance: SCC maintains two Federal Perkins Loan bank accounts at the same institution. One of the accounts has been used for the sole purpose of receiving funds from its Perkins Loan servicer, Campus Partners, while the other account was used for disbursement of Federal Perkins Loan funds to students. A review of the bank statements for the period of July 31, 2010 to February 28, 2014, reflects the institution's Federal Perkins Loan account which was utilized to provide disbursements to students was assessed a $25.00 Overdraft Charge for a check which was presented on November 22, 2011. A review of subsequent bank statements does not reflect the institution reimbursed the federal account for this improper charge.

Additionally, a review of bank statements related to the Perkins loan disbursement account commencing with the June 30, 2012 statement reflects the institution was assessed a "Dormant Service Charge" in the amount of $3.00 monthly throughout the remainder of the 2012 calendar year and continuing in January 2013. In February 2013, the institution continued to be assessed the "Dormant Service Charge"; however, the fee was increased to $5.00 per month and continued on a monthly basis through the February 2014 bank statement (the last statement provided to reviewers). In total, the Federal Perkins Loan bank account which was used to provide loan funds to student borrowers was assessed $86.00 in "Dormant Service Charges". Overall, the review of the bank statements reflect SCC's Federal Perkins account was charged $111.00 in fees which do not appear to have been repaid by the institution to the fund.

Required Action: SCC must review its bank statements for the time frames referenced above as well as for the months subsequent to the February 2014 bank statement to determine if any additional service charges have been assessed to the Federal Perkins bank account. Copies of all Perkins account bank statements from February 2014 to the present should be provided to reviewers with SCC's response to this program review report. Any charges paid for by Title IV, HEA funds that were not reimbursed with institutional funds will be a liability to the institution.

Instructions for repayment of any liabilities will be provided in the FPRD letter. The institution must not repay any funds owed to the Department or return any funds to the institution's Federal Perkins account until the FPRD is issued.